

TAX FINANCIAL CONTROL IN GEORGIA

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Abstract

The main purpose of the research is to be assessed the important changes that implemented in Georgia in the recent period in terms of taxation, especially in the part of special taxation regimes and the Estonian model of profit tax and impact of these changes on tax revenues. Also, in the article is studied the stimulation effect of entrepreneurs, caused by tax changes. Through statistical data and developed questionnaires, as well as microeconomic, macroeconomic and dialectical research methods, was studied the work of special taxation regimes in Georgia. In order to assess the work of the Estonian model in Georgia and its impact on the budget revenues was used a doctrinal research methodology, within the framework of which Georgian and foreign literature, legal acts, decisions of legislative and executive bodies, informational documents of the Ministry of Finance and Treasury Services and the National Statistics Service were analyzed. Based on the data we built diagrams and conducted an analysis that clearly shows the successful operation of the Estonian model, which expressed in the increase of the amount of profit tax recorded in the budget of Georgia. Based on the analysis, we concluded, that despite the fact the reduction of income tax rates of individual entrepreneurs, significantly reduced the amount of tax they had paid in Georgian budget, number of micro and small enterprises, as well as fixed taxes payers has increased significantly in the last years. This indicates the expansion of local production and replacement of imported products in Georgia.

The analysis of the article will be interesting for researchers to study the current processes of taxation, which will hopefully, contribute to the optimization of taxation in Georgia.

Keywords: Georgia, Special Taxation Regime, Estonian Model, Tax Audit.

JEL Codes: H25, H71, M48

1. Introduction

The main aims of the research is to be assessed the important taxation changes that implemented in Georgia in the recent period. Talking about general state financial control, issues of tax control are important. A legal entity under public law under the Ministry of Finance, The Revenue Service, carries out tax control throughout the territory of Georgia. Only the tax authority has the right to exercise tax control over the activity of a person. Tax control can implemented in the form of current control and tax audit. The types of tax audit are cameral and external tax audit. The purpose of current control and tax inspection is to control the correctness of the funds paid into the budget and, in case of violations, to withdraw these funds. As a result, of the current control and tax inspection, both the next and the current control carry out. In order to prevent tax violations, there are fines imposed. The payer tries to break less norms, defined by the legislation, not to have to pay additional funds in the budget.

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Important positive changes have done in the Tax Code of Georgia for taxpayers, in the last period. The limitation period changed from 6 years to 3 years, which makes the accounting procedures easier for the payers.

The process of refunding the overpaid amount had become much easier since 2018. In previous periods, the entrepreneur stopped functioning and the overpaid amount remained in the budget. Since 2018, the process of take out the amount overpaid by entrepreneurs from the budget had significantly simplified. In the case of writing a statement, the audit department of the Revenue Service checks the legality of the overpaid amount and accordingly transfers the amount to the taxpayer's account.

We conducted an analysis, based on which it can see that the number of registrations of persons who are included in special taxation regimes has increased significantly in recent years. Also the successful operation of the Estonian model in Georgia in last years is clearly visible, which indicates the expansion of local production and replacement of imported products.

2. Literature Review

As for the period of transition to the market economy, currently, there are deep and interesting scientific studies of financial policy and taxation perfection. In this regard, particular should be noted the scientific publications of Georgian economists: As demonstrated by Ingorokva and Tsaava (2011) in an influential study about Financial Management, Lipartia (2011) about Corporate Finance Management Strategy, Okruashvili (2009) about Commercial Bank Management, Khomeriki (2006) about principles of management and others.

The special importance of tax relations in the economy, is emphasized in the works of such scientists of economic theories as: Laffer (2014), Markowitz (1952), Smith (1776), Ricardo (1817), Keynes (1921), Samuelson (1947), Friedman (1962) studied the tax component in economic relations. The problems of state finances, including tax policy and the formation of the tax system had studied in their works.

Professors Ingorokva and Tsaava (2011) discussed the essence of financial controlling in the manual "Financial Management". According to their opinion - "one of the directions of financial controlling is tax control. With the correct implementation of tax control, it is possible to plan and manage the country's finances optimally".

About the financial controlling system of the corporation (Lipartia, 2011) offers an interesting study in the manual with the title: "Corporate Finance Management Strategy". An important consideration about corporate finance is - "the main task of corporate finance is to provide financial support for the organization's activities. Also, it is important to find the optimal balance between business profitability and financial risks" (Lipartia, 2011).

An interesting opinion about management is presented "management is a type of professional-managerial activity, which is managed for the purpose of rational use of material, labor and monetary resources in order to manage the economic activities of any firm operating in the conditions of the market economy and achieve its goals. Management is necessary for the category of the firm that carries out its activities for making a profit, despite of the direction of this activity. Therefore, the result of properly conducted managerial activities is the prerequisite for more profit making and paying more taxes in the budget" Okruashvili (2009).

According to the opinion of famous Georgian professor "the rejection of the rationalism of the classical school of management by modern managers - departmental influence on the internal factors of the organization gave priority to the flexibility of production and adaptation to the constantly changing environment of the organization. The organization management principles established by Henri Fayol have been replaced by Peter Druckerian principles of modern management" Khomeriki (2006).

A large part of the work of Smith (1776), representative of the English political economy - "An Inquiry into the Nature and Causes of the Wealth of Nations" refers to the study of state taxes and finances. In the work, had argued that the main sources of income for an economic entity are rent, salary and profit. Therefore, payment of taxes should be equally from these sources of income.

The doctrine of Adam Smith, on the theory of taxes was carried out by English economist David Ricardo, according to which, taxes should be paid from all incomes of economic entities and, at the same time, increasing the profit tax leads to an increase of the prices of products and services. This statement of David Ricardo then confirmed by the economic practice and is still valid today.

An important consideration about corporate finance is - "both cross-country and micro-level studies suggest that lowering tax rates can increase investment, reduce tax evasion, promote formal firm creation and ultimately lead to an increase in firms sales and GDP growth overall. However, lowering tax rates also has important implications for government revenue and it is thus often difficult to balance the trade-offs between various goals of public policy" (Bruhn, 2011).

An interesting opinion about taxes is - "in the profit splits method each controlled taxpayer determines its appropriate share of profits in a way that reflects the functions performed, the resources employed, the risks assumed by each company in relevant activities" (Challoumis, 2018).

Depend on Estonian Funded Pensions Act² - "the Tax and Customs Board shall verify that contributions are made correctly, shall designate, if necessary, amounts payable, shall collect amounts payable pursuant to the procedure provided for in the Taxation Act, and shall apply coercive measures permitted by law in order to enforce the performance of obligations"

Depend on Georgian Tax Code³ - "distributed profit is profit that is distributed by an enterprise to its partner in the form of a dividend, in monetary or non-monetary form".

"A legal person is a resident if it is established pursuant to Estonian law. European public limited companies (SE) and European associations (SCE) whose seat is registered in Estonia are also residents"⁴.

An important consideration about taxes is - "tax deductibility of interest and other expenses result in the tax shield. The tax shield resulting from the company's tax policy has a direct effect on leverage (debt tax shield). Its value is the purpose of a large number of studies that use different assumptions about the company's debt policy: fixed debt, constant leverage, or an optional approach allowing flexible capital management" (Michalkova, Stehel, Nica and Durana, 2021).

According to the opinion of the famous Georgian economist David Narmania "the tendency of growth in investment streams was observed after the Rose Revolution. The main stipulating factor for the growth was the more or less stable fiscal policy, liberal economic policy and the massive PR campaigns carried out at the international level by the government of Georgia. Liberal tax policy should have been followed by tax rate reduction, but in fact contradictory results were faced: Tax income ratio to GDP has the tendency of growth" (Narmania, 2010).

"The tax-deductibility of interest paid (tax shield) plays an important role in deciding an enterprise between two situations: higher pre-tax profit with lower financial distress risk and higher corporate tax or lower pre-tax profit, higher risk and lower corporate tax. A tax shield

² Estonian Funded Pensions Act - <https://www.riigiteataja.ee/en/eli/ee/523012014002/consolide/current>

³ Georgian Tax Code (2010) Tbilisi - <https://matsne.gov.ge/document/view/1043717?publication=200>

⁴ Income Tax Act (1999) Estonia - www.riigiteataja.ee

is a legal way of reducing corporate tax liability and earnings management technique; it is illegal if it achieved by illegal means" (Kovacova, Krajcik, Michalkova and Blazek, 2022).

An important consideration about economic is - "in general, the requirement of early representatives of the historical school to analyze economic events in a historical light failed to accomplished in the time of their authors. Neither of its followers could create an economic theory using the method developed by them. Their economic achievements moved across the paths of classicists. It is not accidental that generation following the historical school criticized not only classicists, also methods of previous-generation historical school" (Silagadze, 2016).

Depend on statistics of Estonia - "the central government sub-sector includes state budget units and extra-budgetary funds, foundations, and legal persons in public law. The total debt of the central government increased by 22% compared with 2021, amounting to 6.8 billion euros by the end of 2022. Long-term loan liabilities increased marginally (by 2%), but there was a considerable growth in the volume of long-term securities because, at the end of last year, the government issued bonds with a maturity of 10 years in the total amount of one billion euros" (Statistics Estonia, 2023).

According to the opinion of the famous economist (Laffer, 2014) the increase of the tax rate to 30-40% leads to an increase of tax revenues, and its increase above that slows down the increase of revenues and economic progress. The main idea of his concept is that a high tax rate reduces entrepreneurial and investment activity and production growth rates fall down and tax revenues decreases.

One of the world's greatest economists, John Maynard Keynes, put forward the theory of "effective demand" and argued that "taxes, along with economic ones, are a tool for regulating social relations, and one of its main tasks is to ensure macroeconomic balance and stability. Higher national income is the basis for more tax revenue. High tax rate creates a more unstable tax base. Reducing taxes stimulate income growth and, therefore, consumption increases and, in general, demand increases, which, in turn, is a factor of economic growth" (Keynes, 1921). One of Keynes's great discoveries is the "psychological law" of taxation, according to which - "an economic unit tends to increase consumption in parallel with the increase of income, but relatively lesser than income increases. This, in turn, leads to an increase in saving, to reduce which it is necessary to impose progressive income tax rates, which will increase the revenues of the state budget, more money will go to investments, reduce the unemployment and stimulate economic development" (Keynes, 1921). The representatives of the Neo Keynesian developed the theoretical aspects of free enterprise, competition and price liberalization, according to which the tax mechanism is a production stimulant and the tax policy is a strong mechanism of anti-crisis and anti-inflationary regulation.

According to the American researcher, Nobel premium laureate Samuelson (1947), monetary and fiscal policy can create favorable conditions for the growth and development of the economy. The mentioned idea further developed by the American scientist, Nobel laureate Friedman (1962), who opposed Keynes theory of "effective demand" and confirmed the effectiveness of the minimum dose of state intervention in the managing of the economy.

"Starting with the appearance of the first state formations on the Romanian territory, the most important fiscal contributions were the customs duties collected for any kind of goods both when crossing the border and when passing through urban centers, on the occasion of sale, etc." (Vlaicu, 2014).

The modern theory of portfolio investments begins with a short article by the Nobel laureate economist Markowitz (1952) "Portfolio Selection". In it, he offered a mathematical model of the optimal portfolio of securities. Also, introduced methods for creating such a portfolio under certain conditions. By discussing the common practice of portfolio diversification, the scientist showed how investors could reduce his risk by choosing uncorrelated stocks. The main merit of Markowitz is the offer of the theoretical probabilistic

formulation of "profitability" and "risk". In this model, a probability distribution used to calculate the ratio between investment risk and expected revenue.

3. Methodology

Due to the complexity of the studied problem, the research planned based on the triangulation approach, which implies the combined use of different methods and theoretical approaches, in the process of studying the same issue. In the research process abstraction, statistical data and developed questionnaires, synthesis, grouping, inductive and deductive, microeconomic, macroeconomic, dialectical and other modern methods of scientific research were used and carried out combining of them, necessary for assess working of special taxation regimes and Estonian model in Georgia.

The article relies on the doctrinal research methodology. Doctrinal research is concerned with legal propositions and the sources of data are legal. It is library research and includes primary and secondary sources. The primary sources are Constitution, Acts and Laws while secondary sources are books, articles etc. Our research had the goal to analyze data number of enterprises registered with the status of micro businesses, small businesses and fixed taxes payers.

At the initial stage of research, were obtained Georgian and foreign literature related to the formation, development and analysis of current trends of international and Georgian tax control organizations. Through the Internet, researches and statistical data of various countries state institutions and international organizations were searched, which than were analyzed. During the period of work on the article, was studied the fundamental provisions of the theory of taxation, the decisions of the legislative and executive bodies of Georgia. The article uses informational documents of the Revenue and Treasury Services of the Ministry of Finance of Georgia, as well as, the State Audit Service and National Statistics Service reports to estimate working of Estonian model in Georgia and its impact on budget revenues.

Statistical information analysis was used as a separate method, depend on which we evaluated how works of micro businesses, small businesses and entrepreneurs with fixed taxpayers status, according to the dynamics of the years, in Georgia.

4. Results

While working on the article, the results obtained on the basis of the analysis are presented, both about the entities under the status of special taxation regime - micro and small businesses and about the fixed taxpayers, as well as for the Estonian model of taxation of legal entities.

4.1 Special Taxation Regimes

Significant changes have been made recently for the benefit of taxpayers. After the activation of special taxation regimes, the accounting system of individual entrepreneurs who have the status of micro and small businesses, has been significantly simplified. Individuals with the status of micro and small businesses, as well as those payers who have the status of a fixed tax payer, are in the area of the special taxation regime.

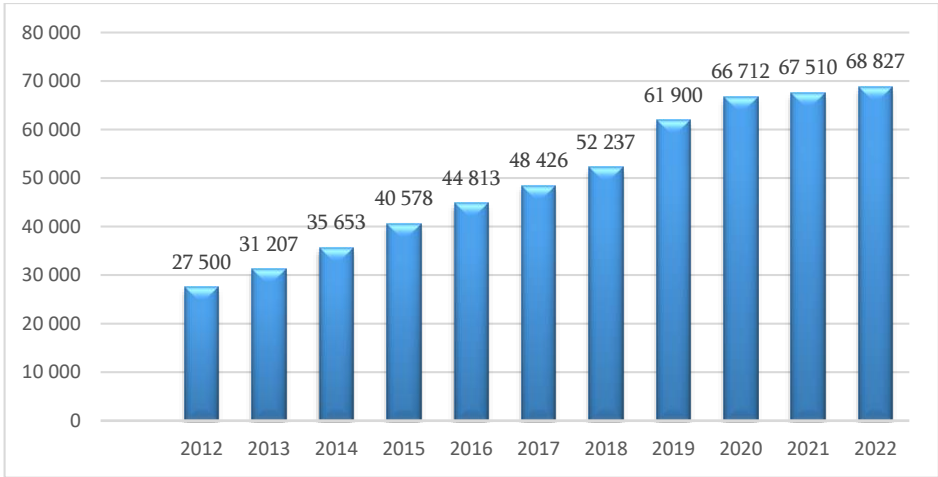
Before the special taxation regimes, individual entrepreneurs paid 20% of their taxable income to the budget annually. After the implementation of the mentioned regime, individual entrepreneurs divided according to income.

The status of micro business can be used by individual entrepreneurs, whose income during the calendar year does not exceed 30 000 GEL and does not uses hired person labor. The persons, who carry out economic activities alone, can use the status of micro business. In

case of using the mentioned status, the person does not pay income tax in the budget that contributed to increase the number of independent producers in Georgia.

From the Ministry of Finance of Georgia, we requested information about the registration of persons with the status of micro business, according to the dynamics of the year. Based on the information provided by the Revenue Service, we constructed a figure (see figure 1).

Figure 1. The number of individuals with micro business status in the years 2012 - 2022

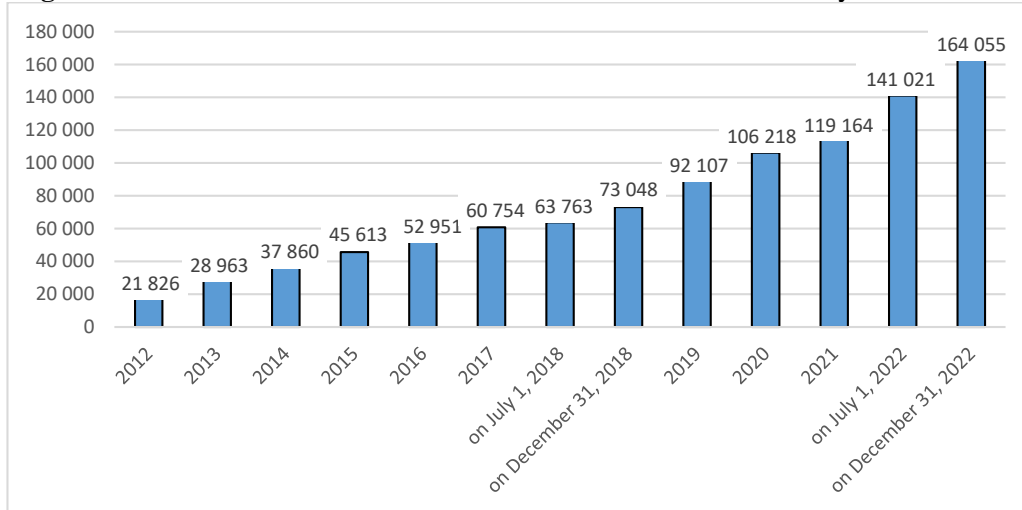


Source: The figure is constructed by the author, based on the information provided by the Revenue Service of Georgia

Based on the analysis, it can be seen that compared to 2012, the number of micro business users has increased by 2.5 times until 2022. In 2012, their number was 27 500 and by 2022 it increased to 68 827. As we have already mentioned, a person who has the status of a micro business, does not pay income tax. It is the main factor, that led to a sharp increase of the number of persons with this status. From the figure, it is visible, that from 2012 to 2022, the number of individuals with the status of an active micro business, increased every year. The introduction of, micro business status, encouraged local entrepreneurs to create additional value with their own, independent work, which replaced imports and contributed to the development of local business in Georgia.

Small business status can be used by an entrepreneur to a physical person, that is, an individual entrepreneur, who has not received more than 500 000 GEL of income during the calendar year. In the initial stage, the tax rate for small entrepreneurs was determined at 5 and 3 percent. Those entrepreneurs, whose total expenses were less than 60% of their total income, paid 5% of their income to the budget in the form of annual income tax and if the total expenses exceeded 60% of their total income, the income tax rate for them was 3%. From July 1-st 2018, the tax burden for small entrepreneurs, further reduced and the 1% was determined flat rate of income tax. In addition, the limit of acceptable income for small entrepreneurs during the calendar year was determined 500 000 GEL instead of 100 000 GEL. As a result of these changes, many taxpayers were encouraged to take the small business status.

Figure 2. The number of individuals with small business status in the years 2012 – 2022



Source: The figure is constructed by the author, based on the information provided by the Revenue Service of Georgia

From the figure, it is clear that from 2012 to July 1, 2018, there is almost a similar dynamic, by years, about the registration of entrepreneurs with small business status (net increase, the number of newly registered persons during the year minus the number of persons whose registration canceled during the year).

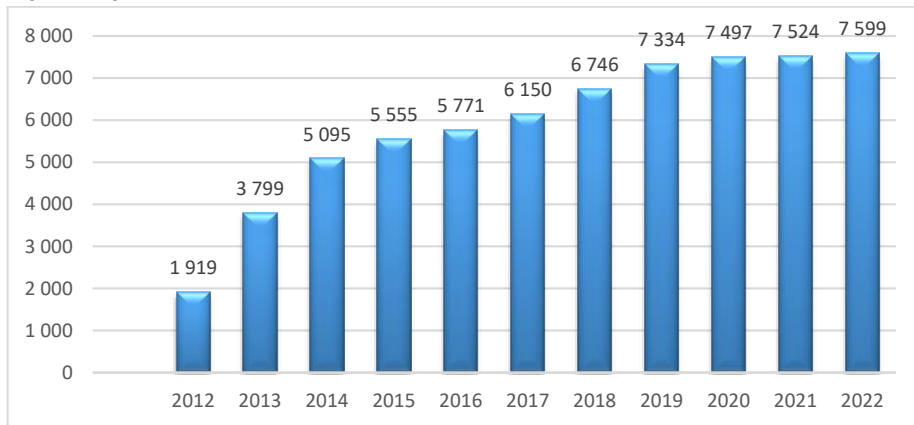
During 2013, the number of registered entrepreneurs was 7 137 persons, in 2014 – 8 897, in 2015 – 7 753, in 2016 – 7 338 and in 2017 – 7 803 persons. From January 1, 2018 to July 1, 2018, an additional 3 009 individuals took small business status. And after the amendment of the Tax Code of Georgia came into effect and from July 1, 2018, the rate of taxable income of a person with a small business status determined at 1% (instead of the 5% and 3% mentioned above), the number of individuals registered as a small business status has increased significantly. From July 1, 2018 to December 31, 2018, 9 285 persons were additionally registered, which is three times more than the number of people registered in the first six months of 2018. During 2019, 19 059 individuals were registered, in 2020 – 14 111 persons, in 2021 – 12 946 persons and from January 1, 2022 to July 1, 2022 – 21 857 persons.

At the end of 2022, 164 055 individual entrepreneurs had the status of a small business, while this figure was only 21 826 persons at the end of 2012.

Determining the rate of taxable income of a person with small business status at 1% was a very important legislative change, in terms of promoting the development of local entrepreneurship in Georgia. It should be noted that a similar preferential taxation regime for individual entrepreneurs does not exist in any country in the world. At the end of 2022, the number of individual entrepreneurs registered in Georgia with an active status is 259 078 taxpayers. From this, more than 63% of individual entrepreneurs have the status of small business.

A fixed taxpayer can be individual entrepreneur that carries out activities that are subject to fixed tax taxation in the list defined by the government of Georgia.

Figure 3. The number of taxpayers with fixed taxpayer status in the years 2012 - 2022



Source: The figure is constructed by the author, based on the information provided by the Revenue Service of Georgia

From the figure, it is visible, that from 2012 to 2022, the number of taxpayers with fixed taxpayer status increased every year. At the end of 2022, the number of fixed taxpayers was 7 599, while at the end of 2012, this figure was 1919.

Despite the fact, that the implementation of special taxation regimes for individual entrepreneurs and the reduction of tax rates greatly reduced the amount of income tax they paid in Georgian budget, it has instead, contributed to the growth of their number and the expansion of local production in Georgia. At the end of 2011 (before the special taxation regimes of individual entrepreneurs came into force) the income tax paid by individual entrepreneurs to the budget of Georgia amounted to 126 562 512 GEL, and at the end of 2022, this figure reduced to 70 048 107 GEL.

In Georgia, special taxation regimes actively used by taxpayers, which, indicates the fact, that the state quite supports the development of local production.

The transition to special taxation regimes had significantly simplified tax accounting procedures and, accordingly, their tax control is carry out more easily. This helps to free up the resources of the tax structures and redistribution them to the contingent of more high risk taxpayers, which overall, helps to strengthen financial control throughout on the territory of the country.

4.2 Estonian Model of Profit Tax

According to the widespread opinion, for the rulers of different countries, it is complicated to implement of radical tax changes, because either there is dissatisfaction in the society or there is a decrease in budget revenues. In Estonia, the reform of the profit tax implemented without any problems and its results customized for the whole society.

Tax changes actively started in Estonia in 1994, when instead of differentiated taxes, the determination of income tax, paid by individuals, defined at a fixed rate. The reform of the profit tax, which applies to legal entities, implemented in Estonia in 2000 and today is actively use around the world. The main essence of the reform is the fact that the companies are obliged to enroll the profit tax in the budget when it distributed, not when they receive a profit.

The company can make reinvestment at the expense of profit - expand production or put money on deposit. Profit tax is calculated in terms of a calendar month, therefore, companies can make changes to their profit or investment distribution plans during the year.

In terms of taxation, Estonia is one of the most advanced country in the EU. In Estonia there is not so called regulatory norms of "weak capitalization". Tax administration caryng out

in accordance with the risk management program, cases of tax avoidances actively monitored and the sanctions are quite large.

Estonians were also able successfully insure the tax risks associated with the financial obligations of transnational, holding companies. According to the majority of Estonian entrepreneurs, the Estonian model of profit tax has worked successfully. After the reform of the profit tax, the liquidity of assets in Estonia increased and the return on investments increased by 17%, the total factor productivity - TFP - increased by 8% and the share of retained earnings and reserves in the volume of total capital - by 8.1%.

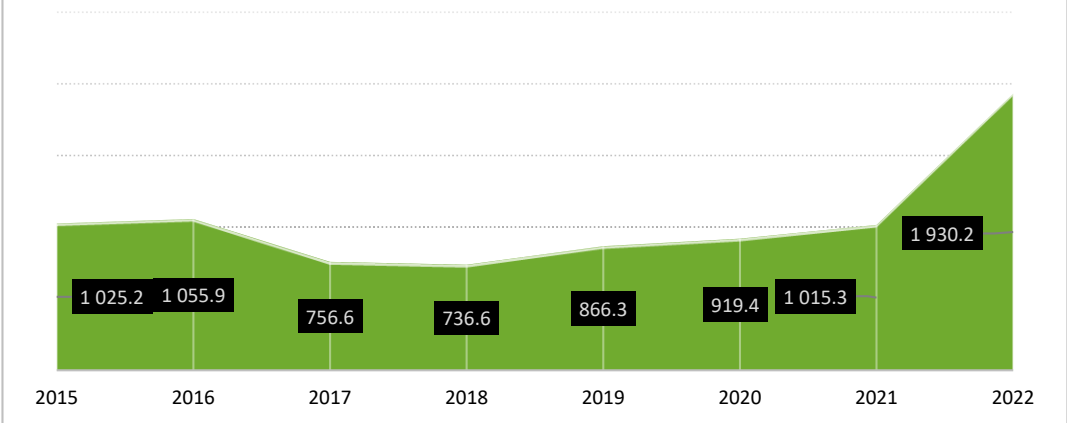
In Estonia, as in Georgia, one of the main question was - Would the reform significantly reduce budget revenues? A clear answer also gave to the mentioned question: Budget revenues from profit tax increased significantly. In terms of profit tax, there was a noticeable decrease for only two years, and since 2001, increase dynamic in payment of profit tax, in the Estonian budget had noticed.

From January 1, 2017, most legal entities operating in Georgia transited to the Estonian model and their taxable income was determined differently according to the Tax Code. Until 2017, legal entities paid 15% of taxable income, to the budget, as annual profit tax. During this period, their taxable income was defined as, their total income minus their total expenditure during the calendar year. After the transition to the Estonian model, the person pays profit tax only if, has distributed profits; incurs expenses of a type that is not related to economic activity; delivers goods, provides services or transfers funds for free; pays representative expenses in an amount higher than the norm determined by the Tax Code of Georgia.

It is important to note, that if the company's shareholders do not distribute profit and the profit received during the year, reinvested in the company's capital the company does not have to pay profit tax. Before the transition to the Estonian model, regardless of whether money took out from the enterprise or not, the entrepreneur was still obliged to pay profit tax to the budget. The transition to the Estonian model, give a motivation to reinvest profit into company's capital and expand local production.

The figure below (see figure 4.) shows, the dynamic of the profit tax clause of the state budget of Georgia from 2015 to 2022.

Figure 4. Profit tax paid to the state budget of Georgia in the years 2015 – 2022



Source: The figure constructed author, based on the data of the State Treasury of the Ministry of Finance of Georgia

From the figure, it is clear that, the amount of profit tax paid to the budget of Georgia in 2015 is 1025.2 million GEL⁵. In 2016, the mentioned indicator increased by 31 million GEL

⁵ 1 USD = 2,7199 GEL

(1 USD = 2,7199 GEL) compared to 2015 and after the amendment was introduced in the Tax Code of Georgia and the Estonian model of enterprise taxation was implemented from January 1, 2017, less money was deposited in the budget of the profit tax part, as it was expected. In 2017, the profit tax paid to the budget amounted 756.6 million GEL while the figure in 2016 was 1055.9 million GEL. The decrease of profit tax up to 300 million GEL in 2017 compared to 2016 is due the fact that almost 90% of Georgian enterprises are in the area of the Estonian model of taxation. Unlike previous years, their profit taxed if the profits distributed by the shareholders and if the profit received by the shareholders is reinvested in the capital of the enterprise, they will not have to pay profit tax. The Implementation of the Estonian model, has given incentives to shareholders to reinvest the profit and increase the capital of the enterprise, which ensures the expansion of local production in the long term. In 2018, compared to 2017, the amount of profit tax paid to the budget decreased to 20 million GEL, but in 2019, compared to 2018, the amount of profit tax paid to the budget increased to 130 million GEL. As expected, the implementation of the Estonian model initially decreased tax paid on profit, as shareholders were given more incentives to reinvest capital, but in the long term, a positive result was revealed, as the reinvestment of profit ensured the expansion of production, which in long term increases profit and more taxes will be paid to the budget. In 2020, the profit tax paid to the budget of Georgia, despite the crisis and lockdown provided by the pandemic, amounted to 919.4 million GEL⁶. The mentioned data is 6.1 percent higher than the pre-pandemic indicator of 2019. In 2021, the profit tax paid to the budget of Georgia, increased by 10.43 percent compared to the previous year and amounted to 1015.3 million GEL (1 USD = 2.7199 GEL), and in 2022 compared to 2021, the amount of profit tax paid to the budget of Georgia increased by 90.11 percent and amounted to 1 930.2 million GEL. Compared to 2021, the almost doubled amount of profit tax enrolled in 2022, which is 874 million GEL more than the figure of 2016 - the amount of profit tax recorded before the implementation of the Estonian model, clearly indicates the successful working of the Estonian model in Georgia. This indicates the expansion of local production and replacement of imported products. The positive results of the Estonian model in Georgia will appear even more in the future, which will promote to the development of local production in the country.

Conclusion

The main conclusion from the results of the research is that, the recent changes in the Tax Code of Georgia have a positive effect on the expansion of local production. After the introduction of special taxation regimes, the number of registrations, of those who are subject to the said taxation regime, has increased significantly. Setting the rate of 1% of taxable income for a person with small business status was a very significant legislative change. At the end of 2022, the number of individual entrepreneurs registered in Georgia with an active status is 259 078 taxpayers, of which more than 63% of individual entrepreneurs have the status of small business. On July 1, 2018, 63 763 individuals worked as small entrepreneurs in Georgia, and after July 1, 2018, when the 1% tax rate came into effect, an additional 100 292 individuals were registered as small entrepreneurs, and on December 31, 2022, their number amounted to 164 055 persons.

The reduction of income tax rates of individual entrepreneurs significantly reduced the amount of income tax they had paid in Georgian budget. At the end of 2022, compared to December 31, 2011 (before the special taxation regimes of individual entrepreneurs came into force) 56 514 405 GEL less was transferred to the Georgian budget by individual entrepreneurs as income tax.

⁶ 1 USD = 2,7199 GEL

As, since January 1, 2017, most legal entities operating in Georgia have transited to the Estonian model, if the profit received during the year will reinvested in the capital of the enterprise, the enterprise does not have to pay profit tax. The implementation of the Estonian model in Georgia initially led to a reduction of payment of profit tax as shareholders gave more incentives to reinvest capital, however, in the long term, a positive result revealed. The reinvestment of profits ensured the expansion of production, which in turn, in the long term, is the basis for receiving more profits and paying more taxes to the budget. In 2022, compared to 2021, the almost doubled amount of profit tax enrolled in Georgia's budget that clearly indicates the successful operation of the Estonian model in Georgia. At the end of 2022, compared to December 31, 2016 (before the Estonian model was implemented) 874 300 000 GEL more was transferred to the Georgian budget as profit tax, which means the expansion of local production and replacement of imported products.

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